



Homeland
Security

November 22, 2004

MEMORANDUM FOR: Karen E. Armes
Acting Regional Director
FEMA Region IX

Robert J. Lastrico

FROM: Robert J. Lastrico
Field Office Director
Office of Audits

SUBJECT: *Audit of the County of Monterey
Salinas, California
Public Assistance Identification Number 053-00000
FEMA Disaster Number 1203-DR-CA
Audit Report Number DS-02 -05*

The Office of Inspector General (OIG) audited public assistance funds awarded to the County of Monterey, Salinas, California (County). The objective of the audit was to determine whether the County expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The County received a public assistance award of \$8.1 million from the California Office of Emergency Services (OES), a FEMA grantee, for debris removal, emergency protective measures, and permanent repairs to structures damaged as a result of flooding. The disaster period was from February 2, 1998, to April 30, 1998. The award provided for 75 percent FEMA funding for 100 small projects and 31 large projects.¹ The audit covered the period February 2, 1998, to April 25, 2003, and included a review of 2 small project and 12 large projects with a total award of \$5,602,888 (see Exhibit).

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to *Government Auditing Standards* issued by the Comptroller General of the United States. The audit included review of FEMA, OES, and County records, a judgmental sample of project expenditures, and other auditing procedures considered necessary under the circumstances.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$47,100.

RESULTS OF AUDIT

The OIG questions \$129,070 claimed by the County (FEMA's share is \$96,803). Specifically, the OIG questioned \$57,445 in costs not supported, \$42,967 in ineligible project costs, \$18,315 in unsupported and ineligible force account labor, \$5,238 in unallowable interest charges, and \$5,105 in expenditures covered by FEMA's statutory administrative allowance.

Finding A – Costs Not Supported

The County claimed \$57,445 for eight projects for costs that were not supported with documentation proving the charges were disaster related. According to 44 CFR § 13.20(b)(6), the County is required to maintain accounting records that identify how FEMA funds are used and must be supported by source documentation such as cancelled checks and paid invoices. Details are provided below.

<u>Project Number</u>	<u>Unsupported Costs</u>
74377	\$ 18,464
74637	11,697
74375	11,095
20719	9,753
20705	5,675
51063	596
21585	140
26723	25
Total	<u>\$57,445</u>

In all eight cases, the amount claimed by the County was not supported by source documentation indicating that those costs were incurred and paid. Since accounting records did not support the amounts claimed, the OIG questioned \$57,445 of the County's claim.

Finding B – Ineligible Project Costs

The County claimed \$42,967 in ineligible costs for projects 26723 and 21585. The expenditures included charges that were not related to the disaster, not included in the approved project scope, or not the legal responsibility of the County. Ineligible project costs claimed by the County include:

- For project 26723, the County claimed \$28,689 in ineligible project costs as follows:
 - Equipment Purchases. The County claimed \$7,808 for one half the cost of equipment purchases. The claimed amount included \$6,874 for portable radios and chargers, \$634 for a payment to a vendor for the loss of a fax machine, and \$300 for a refrigerator. While County officials believed that FEMA reimbursed half of the cost for these type of purchases, the OIG determined that these costs were not eligible for reimbursement. Specifically,
 - The portable radios and chargers did not replace a communication system damaged by the disaster but expanded the County's inventory of radios to supply a new police

unit. Federal rules [44 CFR § 206.225(c) and FEMA Public Assistance Guide (FEMA 286, page 47)] allow federal reimbursement for the costs to 1) replace disaster damaged equipment and 2) temporarily supplement an existing system. However, these rules do not allow the reimbursement for costs incurred in expanding existing communication equipment prior to the disaster.

- The fax machine, leased by the County, could not be located at the end of the lease agreement. Therefore, the County paid the leasing company the price of the equipment. According to 44CFR § 206.223(e), costs incurred as a result of negligence, are not eligible for FEMA reimbursement.
- The refrigerator was purchased for the County's Office of Emergency Service and was not purchased to replace disaster damage equipment. According to 44 CFR § 206.223(a)(1), to be eligible for FEMA reimbursement, an item of work must be required as a result of the disaster.

County officials disagreed with the OIG's conclusion. They explained that the radios were purchased because, at the time of the disaster, the County had not provided radios to a new police unit that was activated to perform emergency work. Officials also explained that the refrigerator was needed to store food for disaster workers and was available for use in future disasters. They noted that paying for a lost fax machine was an eligible disaster cost.

- Entertainment Expenses. The County claimed \$10,515 for entertainment expenses related to a post-disaster employee award recognition reception. According to 44 CFR § 206.223(a)(1), to be eligible for financial assistance, an item of work must be required as a result of the major disaster event.
- Transportation costs. The County claimed \$10,366 for transportation costs associated with stand-by and on-call labor. County records showed that a local bus agency provided the emergency transportation services on an as needed basis. However, those records showed that the bus agency billed and the County paid for stand-by and on call labor costs in addition to the cost for actual bus trips called-in by the County. The OIG contacted the bus agency and was informed that stand-by and on-call labor costs related to bus operators waiting for driving assignments irrespective of the disaster needs.
- For projects 21585 and 26723, the County claimed \$8,213 and \$2,000², respectively, or \$10,213 in total, for the lodging and meal costs of California National Guard (Guard) members who provided assistance during the disaster. The OIG contacted the Guard and was informed that the Department of Defense paid the costs of lodging and meals directly to individual Guard members during mission assignments. County officials explained that payment to the Guard was made because they were not aware that individual Guard members were reimbursed for the costs.

² Same invoice of \$2,000 was used to support costs for 21585 and 26723.

According to 44 CFR § 206.223 (a)(3), to be eligible for financial assistance, an item of work must be the legal responsibility of an eligible applicant.

- For project 21585, the County claimed \$4,065 for the purchase of two fax machines for the County's Office of Emergency Service (OES). Project records showed that the machines were purchased to supplement two other fax machines already in service at OES, and did not replace equipment damaged during the disaster. County officials explained that the machines were purchased because the demand for communicating via fax machine greatly increased during the disaster. As previously noted (project 26723), federal rules do not allow federal reimbursement for cost incurred to expand a communication system in place prior to the disaster.

Since the County's accounting records show the costs claimed were not related to the disaster, not included in the approved project scope, or the legal responsibility of the County, the OIG questioned \$42,967 as ineligible project costs.

Finding C – Unsupported and Ineligible Force Account Labor Costs

The County claimed \$18,315 in force account labor costs that were unsupported, not disaster related, or excessive.

- For project 26723, the County claimed \$11,296 in force account labor costs that were either unsupported or not disaster related. County accounting records did not include support such as time sheets or similar documentation for \$9,691 in force account labor charges claimed. Further, records supporting the claim included \$1,605 in force account labor charges for hours when employees were not performing disaster related work and were placed on standby or on-call status.
- For project 74375, the County claimed \$7,019 in excessive fringe benefit charges for overtime force account labor. The County erroneously claimed a straight-time fringe benefit rate (46%), instead of the actual rate applied (7.65%).

According to 44 CFR § 13.20(b)(6), the County is required to maintain accounting records that identify how FEMA funds are used. In addition, 44 CFR § 206.223(a)(1) provides that an item of work must be required as a result of a major disaster event to be eligible for financial assistance. Since the County's force account labor costs were unsupported, not disaster related, or excessive, the OIG questioned \$18,315 in costs claimed by the County.

Finding D – Unallowable Interest Charges

The County claimed \$5,238 for unallowable interest charges pertaining to contract work performed on two projects. County project records showed that at the completion of the work, the contractor assessed the County interest of \$3,259 for project 20716 and \$1,979 for project 20723 because the County did not pay progress payments timely.

According to 44 CFR § 206.223(a)(1), to be eligible for financial assistance, an item of work must be required as a result of the major disaster event. Also, according to the Office of Management and Budget Circular A-87, Attachment B, Section 23, federal reimbursement is not allowed for costs relating to interest payments. Therefore, the OIG questioned the \$5,238 in interest payments made and claimed by the County.

Finding E – Costs Covered Under FEMA’s Statutory Administrative Allowance

The County claimed \$5,105 in expenditures covered by FEMA’s statutory administrative allowance. According to 44 CFR § 206.228(a)(2)(ii), the County is reimbursed for the direct and indirect costs associated with requesting, obtaining, and administering public assistance based on a statutory percentage allowance. According to FEMA’s Public Assistance Guide (FEMA 322, Page 41), examples of the activities the allowance covers include identification and assessment of damages, and general project administrative costs.

Based on direct project costs claimed by the County, FEMA paid an administrative percentage allowance of \$76,662. However, the County also claimed as direct project costs:

- \$4,387 under project 26723 (emergency protective measures) for the rental cost of a helicopter. The County’s OES procured the helicopter services to perform a general assessment of damaged facilities and not for reducing an immediate threat to life and property.
- \$718 under project 21585 for the expenditures of film purchases, general supplies, and other administrative type expenses.

Since the regulations limit administrative costs to the statutory allowance, such costs claimed as direct project costs are ineligible for FEMA reimbursement. Therefore, the OIG questioned \$5,105 in direct costs that were covered by the allowance.

RECOMMENDATION

The OIG recommends that the Regional Director, FEMA Region IX, in coordination with the California OES, disallow \$129,070 of costs claimed by the County.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of this audit with the County on September 22, 2004. County officials agreed with findings A, B, D, and E; and partially agreed with finding C. For finding C, County Officials did not agree with questioned costs relating to the purchase of radios, fax machines, and transportation expenses. The OIG also notified OES officials of the audit results on October 12, 2004 and FEMA Region IX officials on October 12, 2004.

Please advise this office by January 21, 2005, of the actions taken to implement the recommendation in this report. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Humberto Melara and James Kane.

Schedule of Audited Projects
County of Monterey, Salinas, California
Public Assistance Identification Number 053-00000
FEMA Disaster Number 1203-DR-CA

Project Number	Amount Awarded	Questioned Costs	Finding Reference
Large Projects			
51063	\$ 483,072	\$ 596	A
02609	207,762	0	
26723	727,159	46,397	A,B,C,E
21585	239,550	13,136	A,B,E
20705	99,146	5,675	A
74375	1,168,066	18,114	A,C
20716	744,844	3,259	D
74377	546,424	18,464	A
20723	449,432	1,979	D
20703	368,171	0	
20719	291,249	9,753	A
74637	252,524	11,697	A
Subtotal	\$ 5,577,399	\$ 129,070	
Small Project			
20708	\$ 22,000	\$ 0	
51953	3,489	0	
Subtotal	25,489	0	
Totals	<u>\$5,602,888</u>	<u>\$ 129,070</u>	

Finding Reference Legend:

- A. Costs Not Supported
- B. Ineligible Project Costs
- C. Unsupported and Ineligible Force Account Labor Costs
- D. Unallowable Interest Charges
- E. Costs Covered Under FEMA's Statutory Administrative Allowance